

Message Text

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PAGE 01 JAKART 01346 01 OF 02 311037Z
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C O N F I D E N T I A L SECTION 1 OF 2 JAKARTA 1346

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E.O. 11652: GDS
TAGS: PFOR, ECON, ID, XE, XP
SUBJECT: EAST ASIAN ECONOMIC POLICY REVIEW

REF: (A) JAKARTA 0782, (B) JAKARTA 0969, (C) JAKARTA 1064,
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1. THE REFERENCED CABLES CONTAINED OUR CONTRIBUTIONS TO THE
SUBJECT REVIEW WITH OUR BEST ESTIMATE OF THE IMPLICATIONS
OF RECENT DEVELOPMENTS ON U.S. POLICY VIS-A-VIS INDONESIA AND
ASEAN. I WOULD LIKE TO ADD A FEW SPECIFIC OBSERVATIONS AND
RECOMMENDATIONS REGARDING THE IMPLEMENTATION OF OUR PRINCIPAL
GOALS.

2. GENERAL OBSERVATIONS: I NOTE THAT CONCLUSIONS OF LAST
YEAR'S BUREAU REVIEW (CONTAINED IN ASSISTANT SECRETARY
HOLBROOKE'S MEMO TO THE SECRETARY OF JUNE 7, 1977) FOCUSED
ON "YEAR OF ASSESSMENT" WITH A PRIMARY EMPHASIS ON INVESTMENT,
COMMODITY MATTERS, PL-480, ECONOMIC ASSISTANCE, AND IFIS.
I BELIEVE THAT THIS YEAR'S REVIEW SHOULD ALSO INCLUDE
TRADE PROMOTION TO WHICH I INTEND TO GIVE A VERY HIGH
PRIORITY.

3. TRADE PROMOTION: WITH THE CONTINUING SLOW-DOWN IN
MAJOR PROJECT UNDERTAKINGS SINCE 1975, WE HAVE SHIFTED
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CONFIDENTIAL

PAGE 02 JAKART 01346 01 OF 02 311037Z

OUR EMPHA SS FROM JAOR PROJECT ACTIVITY TO MORE TRA-
DITIONAL COMMERCIAL WORK, FORECASTING TRADE OPPORTUNITIES,
AND IDENTIFYING CAPABLE AGENTS AND DISTRIBUTORS FOR U.S.
SUPPLIERS. ALTHOUGH IN A COUNTRY LIKE INDONESIA IT IS
NOT POSSIBLE TO ACHIEVE DRAMATIC RESULTS QUICKLY, OVER
THE LONGER RUN IT IS ESSENTIAL THAT WE ENLARGE AND CON-
SOLIDATE OUR MARKET SHARE. THIS WILL REQUIRE CONTINUING

ATTENTION TO REGULAR SUPPLIERS IN ADDITION TO MAJOR PROJECT OPPORTUNITIES. IN BOTH INSTANCES OUR EFFORTS WILL BE ENHANCED BY THE MORE COMPETITIVE POLICIES OF EXIM BANK. OUR CCP PROPOSALS FOR FY 1979 AND FY 1980 WILL SPELL OUT IN DETAIL OUR RECOMMENDATIONS. FURTHERMORE, WE HAVE DEVELOPED AND WILL CONTINUE TO MAINTAIN CLOSE WORKING RELATIONS WITH THE SINGAPORE INTERNATIONAL MARKET CENTER. THEIR EFFORTS AND OUR OWN ARE COMPLEMENTARY AND MUTUALLY SUPPORTING.

4. I FEEL THE SUCCESS OF "DINAMIKA" LAST YEAR INDICATES THAT A SIMILAR UNDERTAKING WILL BE DESIRABLE IN 1979 AND FULLY ENDORSE OUR GOING AHEAD WITH A MATERIALS HANDLING EQUIPMENT SHOW IN THAT YEAR. USG SOLO TRADE FAIRS GIVE RECOGNITION TO INDONESIA'S POTENTIAL AND GROWTH AND, IN THE ASEAN CONTEXT, REAFFIRM OUR COMMITMENT TO THE DEVELOPMENT OF THIS FREE MARKET ORIENTED REGION.

5. I AM ENCOURAGED BY THE NEW LOOK APPARENT IN EXIM BANK AND STRONGLY RECOMMEND FURTHER PROGRESS IN THIS AREA. EXIM SUPPLIER CREDITS AND OTHER SUPPORTING PROGRAMS ARE HELPFUL NOT ONLY FOR EXPORT EXPANSION TO INDONESIA BUT ARE ALSO A NECESSARY INGREDIENT IN SUPPORTING INDONESIA'S DEVELOPMENT EFFORTS., PARTICULARLY IN THE INDUSTRIAL AND TECHNOLOGICAL AREAS. THE INDONESIANS TOO WILL WELCOME A REVIVAL OF EXIM INTEREST IN

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PAGE 03 JAKART 01346 01 OF 02 311037Z

THEIR COUNTRY. I STRONGLY RECOMMEND AN EARLY VISIT BY CHAIRMAN JOHN MOORE.

6. AID AND TRADE PROMOTION: I RECOGNIZE THAT CURRENT AID PROGRAM GUIDELINES LIMIT OPPORTUNITIES FOR ASSISTING U.S. EXPORTERS ALTHOUGH THERE ARE OCCASIONAL INDIRECT BENEFITS WHEN U.S. CONSULTANTS AND ENGINEERING FIRMS ARE BROUGHT INTO OUR PROGRAM ACTIVITIES. SPECIAL PROJECTS SUCH AS RURAL ELECTRIFICATION ALSO ADVANCE THE EXPORT OF U.S. EQUIPMENT. NEVERTHELESS, PRESENT AID LEGISLATION AND GUIDELINES ARE NOT BASICALLY DESIGNED TO HELP EXPORT EXPANSION, A SUBJECT ON WHICH WE SHALL COMMENT IN A SUBSEQUENT MESSAGE.

7. INVESTMENT: OUR EFFORTS TO SUPPORT U.S. INVESTMENT IN INDONESIA WOULD BE AIDED BY CONTINUATION OF OPIC PROGRAMS. WHILE THE CLIMATE HERE LEAVES A GREAT DEAL TO BE DESIRED PRESENT INDICATIONS ARE THAT GOI IS ATTEMPTING TO MAKE IMPROVEMENTS. WE SHALL CONTINUE TO ENCOURAGE THE GOI IN THIS ENDEAVOR. I WOULD RECOMMEND A JOINT EFFORT BY THE AMERICAN CHAMBER HERE AND KADIN TOGETHER WITH THE SIMILAR ORGANIZATIONS IN THE

U.S., SUCH AS THE INDONESIAN CHAMBER IN NEW YORK, PACINDO, ASIA SOCIETY, ETC., TO ORGANIZE SPECIAL INVESTMENT SEMINARS WHICH WOULD, I THINK, BE BENEFICIAL ON BOTH SIDES OF THE PACIFIC.

8. THE INITIATIVES FOR INVESTMENT MUST OF COURSE COME FROM OUR PRIVATE SECTOR, BUT I SUBMIT THAT USG'S LUKE-WARM STANCE REGARDING FOREIGN INVESTMENT, I.E. THAT WE NEITHER PROMOTE NOR ENCOURAGE IT, IS NOT SUFFICIENTLY RESPONSIVE TO THE NEEDS AND DESIRES OF THE AMERICAN BUSINESS COMMUNITY IN THIS AREA (PARA 8, REF C). I BELIEVE THE DEPARTMENT SHOULD EXAMINE HOW OUR BASIC INVESTMENT POLICY MIGHT BE CHANGED TO REFLECT A DEGREE OF POSITIVE ENCOURAGEMENT. THIS WOULD BE HELPFUL FOR
CONFIDENTIAL

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PAGE 04 JAKART 01346 01 OF 02 311037Z

OUR RELATIONS WITH INDONESIA AND ASEAN AND WELCOMED BY APCAC.

9. COMMODITY MATTERS AND NORTH SOUTH ISSUES: SENIOR INDONESIAN OFFICIALS, ESPECIALLY WIDJOJO, ARE CLEARLY INTERESTED IN MAINTAINING A DIALOGUE WITH US ON THESE SUBJECTS, ESPECIALLY THE COMMON FUND. A VISIT HERE BY UNDER SECRETARY COOPER OR OTHER KEY DECISION-MAKERS IN THIS AREA, SUCH AS KATZ, BERGSTEN, BOSWORTH, AND HEGINBOTHAM, WOULD HELP U.S. INTERESTS.

10. CIVIL AVIATION: FOLLOWING UNSUCCESSFUL NEGOTIATIONS LAST YEAR., GARUDA INDEFINITELY POSTPONED ITS PLANS TO FLY TO THE U.S. AND, AS AN ALTERNATIVE, WORKED OUT WITH PANAM AN INTERLINE AGREEMENT WITH WHICH BOTH APPEAR PLEASED. THERE IS PRESENTLY NO AIRLINE PRESSURE FOR FURTHER NEGOTIATIONS AND I RECOMMEND THAT WE DO NOTHING TO DISTURB THE STATUS QUO AT THIS TIME. AT THE SAME TIME I RECOMMEND THAT WE STRENGTHEN OUR TECHNICAL COOPERATION IN CIVAIR MATTERS AND SUGGEST A HIGH-LEVEL FAA GOODWILL VISIT TO REVIEW INDONESIA'S NAVIGATION AND SAFETY PLANS AND TO DISCUSS AREAS OF COOPERATION. THE COUNTRY BADLY NEEDS ADVICE IN CIVAIR MATTERS AND FLOWING FROM SUCH ADVICE IS THE PROSPECT OF SIGNIFICANT SALES OPPORTUNITIES FOR U.S. AVIONICS SUPPLIERS.

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PAGE 01 JAKART 01346 02 OF 02 311510Z
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C O N F I D E N T I A L SECTION 2 OF 2 JAKARTA 1346

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11. ENERGY:

(A) OIL: THE IRS TAX DECISION ON INDONESIAN PRODUCTION-SHARING PAYMENTS AND THE CONTINUING FPC/DOE EVALUATION OF THE PAC/INDO LNG CONTRACTS ARE TWO EXAMPLES OF THE MANNER IN WHICH USG REGULATORY/ ADMINISTRATIVE DECISIONS ARE HAVING SIGNIFICANT EFFECTS ON OUR BILATERAL RELATIONS. WHILE I DO NOT EXPECT FOREIGN POLICY CONSIDERATIONS TO DETERMINE THE OUTCOME OF THESE ESSENTIALLY INDEPENDENT DOMESTIC DECISIONS, I DO HOPE THE PROCESSES OF DECISION FOLLOWED BY U.S. GOVERNMENT AGENCIES WILL BE EXPEDITED AND TAKE INTO CONSIDERATION THE VERY SUBSTANTIAL IMPORTANCE OF THE DECISION TO THE GOI.

(B) TECHNICAL ASSISTANCE: WE HAVE AN INTEREST IN SUPPORTING INDONESIAN EFFORTS TO ANALYZE AND PLAN THE COUNTRY'S ENERGY SECTOR SO AS TO MAXIMIZE THE AMOUNT AND "LIFE" OF INDONESIA'S OIL PRODUCTION. WE ALSO HAVE AN INTEREST IN ENCOURAGING GOI TO AVOID A PREMATURE COMMITMENT TO NUCLEAR POWER. RECENTLY GOI OFFICIALS HAVE SAID THEY WOULD WELCOME OUR ASSISTANCE IN THE ENERGY SECTOR, SPECIFICALLY IN UPGRADING INDONESIA'S FORECASTING CAPABILITIES AND IN HELPING WITH BASIC DATA COLLECTION. I RECOMMEND THAT THE USG COOPERATE WITH
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PAGE 02 JAKART 01346 02 OF 02 311510Z

GOI IN THESE ACTIVITIES.

12. AID AND DEVELOPMENT ASSISTANCE: INDONESIA CLEARLY WILL REQUIRE ODA RESOURCES FOR MANY YEARS TO COME AND WE ARE CONTINUING OUR ASSESSMENT OF OBJECTIVES IN THE FRAMEWORK OF THE EMPHASIS ON HUMAN NEEDS AND REACHING THE POOR. A SEPARATE CABLE SETS FORTH MY VIEW THAT WE

SHOULD, IN OUR BILATERAL AID PROGRAM, DEVOTE INCREASED ATTENTION AND RESOURCES TO AGRICULTURAL AND RURAL DEVELOPMENT AND FOOD PRODUCTION. INDONESIA IS ALREADY FAR TOO HEAVILY DEPENDENT ON IMPORTED FOODGRAINS AND THIS DEPENDENCE IS INCREASING. WITH OUTSIDE ASSISTANCE INDONESIA HAS THE CAPACITY SIGNIFICANTLY TO INCREASE DOMESTIC PRODUCTION DURING THE NEXT SEVERAL YEARS. OTHER AREAS OF TOP PRIORITY, IN WHICH WE ALREADY HAVE MAJOR PROGRAMS, ARE FAMILY PLANNING AND MANAGEMENT TRAINING. THE ABSENCE OF CAPABLE MANAGERS AT ALL LEVELS NOT ONLY IMPEDES THE DESIGN AND IMPLEMENTATION OF PROJECTS BUT ALSO HANDICAPS THE DEVELOPMENT OF THE PRIVATE SECTOR. OUR PROGRAMS SHOULD FOCUS AS MUCH AS POSSIBLE TO HELP INDONESIA IN ESTABLISHING APPROPRIATE MANAGEMENT INSTITUTIONS.

13. PL-480 TITLE III: I STRONGLY FAVOR THE NEGOTIATION OF A PL-480 TITLE III AGREEMENT WITH THE GOI. WE CONSIDER A TITLE III PROGRAM AN EXCELLENT MEANS OF ESTABLISHING SOME LEVERAGE TO STEER GOI FOOD PRODUCTION POLICY IN THE DIRECTIONS WE UMNSIDER MOST PROMISING. ALTHOUGH THE DEBT FORGIVENESS FEATURE OF TITLE III WILL CLEARLY BE ATTRACTIVE TO THE GOI, IT WILL BE DIFFICULT TO PERSUADE THE GOI TO RELAX ITS LONG-STANDING OPPOSITION TO THE EARMARKING OF LOCAL CURRENCIES GENERATED BY DOMESTIC SALES OF FOOD ASSISTANCE. IF
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PAGE 03 JAKART 01346 02 OF 02 311510Z

CAREFULLY HANDLED, HOWEVER, I HOPE THAT THIS OPPOSITION CAN BE OVERCOME.

14. IFIS: REVIVAL OF INDONESIA'S ELIGIBILITY FOR IDA FINANCING WAS MOST WELCOME AND I RECOMMEND CONTINUED SUPPORT TO BLENDING IDA FUNDS INTO REGULAR IBRD PROJECTS HERE. AS BOTH OUR OWN PROGRAMS AND THOSE OF THE IFIS CONCENTRATE INCREASINGLY ON MEETING BASIC HUMAN NEEDS, WE SHOULD ENCOURAGE IFIS TO CONTINUE ALSO BADLY NEEDED INFRASTRUCTURE ASSISTANCE, PARTICULARLY IN AREAS OF TRANSPORTATION, COMMUNICATION, POWER, IRRIGATION, AND HEALTH.
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